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IN THE

Supreme Court of the United States

October Term, 1938

No. 1

GENERAL TALKING PICTURES CORPORATION,
Petitioner,
vs.

WESTERN ELECTRIC COMPANY, INC., ELECTRICAL RESEARCH PRODUCTS, INC., and AMERICAN TELEPHONE & TELEGRAPH COMPANY, *Respondents.*

PETITION FOR REHEARING

SAMUEL E. DARBY, JR.,
EPHRAIM BERLINER,
Counsel for Petitioner.

JOSEPH J. ZEIGER,
Of Counsel.

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PETITION FOR REHEARING.

Petitioner respectfully petitions for a rehearing in this cause.

The petition is predicated upon three grounds, as follows:

1. The decision of this Court, rendered November 21st, 1938, was to the effect that the two questions on which rehearing was had were not presented by the facts of this case and therefore need not be answered.

Though in arriving at this conclusion the Court assumed, and applied as a test, the enforceability of a limitation whose validity under the patent law was directly presented by the two questions which the Court nevertheless declined to answer, it is believed that the decision was largely induced by petitioner's failure, in its brief and on re-argument, to point out the conclusively established and

undisputed facts which show that these questions *are* squarely presented. Petitioner failed to do this because it believed that when this Court ordered re-argument, the factual elements in the two questions were considered accepted and established, and because the prior decision of this Court in this case¹ apparently recognized that the first of the two questions, modified in the statement thereof, was properly presented and was answered.

It is also believed that this Court's present conclusion was arrived at on the theory that the amplifiers were manufactured solely for talking motion picture purposes and that therefore their sales to petitioner were outside of the Transformer Company license and hence infringing sales. In other words, this Court was apparently under the impression that the amplifiers were limited *in use*, to that purpose and were not *manufactured* under the license agreement because they were incapable of use for the uses specified by the license.

It is true that respondents took that position before this Court in their brief and on re-argument. It is equally true, however, that at no time prior thereto during this protracted litigation had respondents ever taken that position. In the first argument before this Court the contrary was expressly admitted (see respondents' brief and its reprint, p. 8). Moreover, and this is of controlling effect, the District Court made findings of fact directly contrary to respondents' present contention and to this Court's impression on which its decision was apparently based (Vol. III, pp. 1647; 1649; fols. 4939; 4945).

2. The present decision of this Court leaves undisturbed its prior decision in the case which did answer the first

¹ 304 U. S. 175.

question in a manner at utter variance with many prior decisions of the Court and, without either expressly overruling them or differentiating therefrom.

3. Thus, the questions being properly presented by the facts and the record in this case, they should be answered in the negative in conformity with the decisions of this Court for nearly a century and for the reasons therein stated.

The majority opinion on rehearing cited *United States v. General Electric Company*² as authority for the proposition that a patentee may grant a license upon any condition, the performance of which is reasonably within the reward which the patentee, by the grant of the patent, is entitled to secure; and that the restriction here sought to be imposed by the patent owner was of the character referred to in that case, and was legal. By this, the Court could have meant only that the restriction was not inherently illegal as repugnant to the conscience or violative of some special statute, or, as the cases cited in the majority opinion clearly show, that it was enforceable where imposed solely as a condition of use by a licensee. In the same sense, restrictions on time of use, place of use, materials used, and resale price are "legal", but each and every one of them was held unenforceable under the patent law by this Court as against purchasers from patentees or those vested by patentees with a power of sale.

Petitioner at no time has contended, as the majority opinion of the Court implies, that the restriction here sought to be enforced by respondents is illegal in the general sense. Our contention has been, and the unanimous decisions of this Court, with the exception of the overruled *Dick* case,³

² 272 U. S. 476, 489.

³ 224 U. S. 1.

have been that all such restrictions are unenforceable *under the patent law* against purchasers of the patented article from patentees or those vested by patentees with a power of sale.

The remainder of this petition will be devoted to amplification and discussion of each of these grounds.

POINT I.

The facts in this case do present the two questions on which the rehearing was had.

This Court based its conclusion that the facts in the present case do not present the two questions for determination, on the ground that *both* the *manufacture* and *sale* of the amplifiers by the Transformer Company were outside the license under the patents; therefore, both *manufacture* and *sale* by the Transformer Company were infringing acts. It is believed that this Court was induced to that conclusion by the impression that the amplifiers so made and sold to petitioner were useful or capable of use *only* in the talking motion picture field, and were *not* useful or were incapable of use in the "licensed" field of radio broadcast, amateur and experimental reception. By no other reasoning could such a conclusion be arrived at when it is remembered that the restriction applies only to *use*, and only by user could it be determined whether there had occurred a violation of the restriction. The *facts* of the case, however, not only completely negative any such impression but they render illogical and erroneous the conclusion founded thereon.

Thus, it should be noted that the Transformer Company was possessed of the right to make *and* the right to sell. *It was granted no right to use.* There was no restriction of

any kind or nature imposed or sought to be imposed on the Transformer Company as to its right to *make*. The only restriction imposed or sought to be imposed by the license agreement was on the right to use the amplifier *after its sale*. This restriction in no way affected the Transformer Company for it was possessed of no license to use, in any event. The purported restriction, by its very terms and intent, was sought to be imposed upon *purchasers*, and to be made effective, not by *agreement* between the patent owner and the purchasers, *but by a mere notice attached to the amplifier*.

The foregoing is made clear by a consideration of the license agreement.

By paragraph 1 of the agreement the Transformer Company was given *an unqualified right to manufacture* at its factory and not elsewhere. This grant is set off from the rest of the paragraph by a semi-colon, an intervening phrase limiting the manufacturing to the licensee's premises, and by a comma. These are followed by a separate clause granting the right to *sell* the manufactured product "only for radio amateur reception, radio experimental reception, and radio broadcast reception".⁴ Indeed, this restriction on *use after sale*, is not even separated by a comma from the grant of the right to sell, and, by the very language of the contract, limits *that* right and nothing else. Yet, the first majority opinion in this case links this restriction to the grant of the right to *make*, as well,⁵ though there is nothing in the agreement or in any other part of the record to warrant it. The present majority opinion reads likewise, though in quoting from the agreement it separates the two grants by a comma, and omits the intervening phrase limiting the right to manufacture to the licensee's factory. But,

⁴ Vol. III, p. 1415, fol. 4245.

⁵ 304 U. S. 175 at p. 180.

as we have hereinabove noted, and as correctly quoted in the present dissenting opinion, the grant of the right to *make*, unrestricted to any field of *use*, is clearly and unequivocally separated from the grant of the right to sell, by a semi-colon, the intervening phrase designating the place of manufacture, and by a comma.

That, too, was the practical construction put upon the agreement by the parties thereto long before petitioner was in existence. In a letter to the Transformer Company, the Radio Corporation, co-licensor with respondent Telephone Company, wrote in September of 1927: *

"Your license permits you *to sell* power supply and amplifier units for radio use only

The net result of this is that if *anyone buys* an amplifier unit from you, he may use it for a radio receiving set but he cannot use it for an electric phonograph"

In other words, there was no restriction on use in the grant of the right to *manufacture*, for the simple reason that the Transformer Company was granted no right of user of the patented amplifier it made, but, by the terms of its agreement, it was permitted to *sell* only for the specified uses. That is how the agreement reads. That is the way in which the parties understood it. Moreover, that is the common sense of the situation. Even the Trial Judge in his opinion spoke of the amplifiers sold petitioner by the Transformer Company as—

"the amplifying devices manufactured *under the patents*" (Vol. I, p. 1621, fol. 4859).

That was his *finding*. 7

* Vol. II, p. 1214, fols. 3640, 3642.

⁷ Italics in this petition ours unless otherwise stated.

Our first inquiry is, then, whether or not the amplifiers sold petitioner by the Transformer Company embodied the inventions of the patents. That they did, cannot be and is not disputed. The mere fact that petitioner has been sued for infringement of the patents precludes any but an affirmative answer to this inquiry. Thus, we have a situation where the challenged apparatus has been manufactured by one possessed of an unqualified and unrestricted right to manufacture it, and which apparatus undeniably embodies the inventions of the patents in suit. Therefore, we fail to understand by what process of reasoning or by what legal principle this apparatus can be characterized as *not* manufactured "under the patents", and we believe that the foregoing simple analysis must inevitably point out to this Court its error in reaching such a conclusion.

The next question logically presented is whether or not, under such circumstances, the *sale* of the amplifiers was outside of the patents and constituted infringing sales, as concluded by the Court.

First we refer to the license agreement itself.

Paragraph 1 of the agreement⁸ required the Transformer Company to sell only for the restricted uses enumerated immediately after the grant of the power of sale. Paragraph 5 of the agreement particularized with meticulous detail precisely how such sales were to be made under such restrictions. No other reference to performance of

⁸ Vol. III, p. 1415, fol. 4245.

Contrary to this Court's conclusions in both opinions, the commercial field *was not* reserved to respondents. What respondents really sought was to license the use of the amplifiers in amateur, experimental and *certain* commercial fields, and to divide off and reserve *other* commercial uses to themselves and their associates in the radio patent pool. This is evident from the Transformer Company agreement where the field of "broadcast reception" is, by express definition, unlimited to any private or home field (Vol. III, p. 1416, subdiv. (c), fol. 4248).

those conditions can be found elsewhere in the agreement. That paragraph required the Transformer Company to attach to each amplifier it made and sold, a plate reading:¹⁰

"Licensed only for Radio Amateur, Experimental and Broadcast Reception."

The agreement contained no proviso requiring the Transformer Company to supervise or police the actual use of the amplifiers by the purchaser so as to assure itself that they were being used solely for the purposes specified on the "license notice". It was not even required to inform the licensors of the purchasers' names so as to give the patentees an opportunity to supervise for themselves if they so desired. Nor was the licensee asked or obliged to retain title or control by means of conditional sale agreements, or to exact agreements of any character from those who bought the patented articles it made and then sold with the "license notice" attached. All that the Transformer Company was required to do by its license agreement was to sell for the purposes stated in the "license notices", and the method which it was to adopt for that purpose was not only described in the contract but was the only one that the patentee, if making the sale directly, would have used, apart from making a specific contract with the purchaser. That is not only the fair and reasonable interpretation of the license agreement by its express terms and by the familiar rules of contract construction,¹¹ but it is precisely how the parties themselves understood and acted under it.

¹⁰ Vol. III, p. 1418; see also photograph of a typical "license notice" plate in Vol. II, p. 734.

¹¹ A license agreement is a simple contract and must be construed as such (*Wilson v. Sandford*, 10 How. 180). It is to be construed strictly against the party drawing it (*Moulor v. Amer. Life Ins. Co.*,

(Footnote continued on page 9)

No act of respondents in their dealings with the parties showed any indication that they considered the act of the Transformer Company in making the sale an infringement. Their concern was solely with the enforcement of the "license notice" restriction on the subsequent use of the articles after they had been sold.

When respondents' co-licensor, the Radio Corporation, wrote to the Transformer Company defining its rights and duties under the agreement, it did not say the sales would be infringements if the buyers of the articles used them contrary to the terms of the notice. It said that if the purchases were made, the buyers could not use them otherwise than as specified on that notice.¹²

If respondents had considered the sale to be the infringement, and a violation of the terms of the license agreement, would not the ordinary, prudent person, not to speak of an ever watchful great corporation, immediately have cancelled the license and instituted a suit for infringement against the infringing seller? Instead, what do we find?— (1) For a long period of time, even after knowledge of the use by petitioner, respondents continued to collect and retain royalties on those sales, and (2) they never protested to the Transformer Company that the sales were improper, but, on the contrary, permitted the license agreement to continue in full force and effect until the expiration of its term.

(Footnote continued from page 8)

111 U. S. 335), general terms therein must be held limited by the particular, giving due consideration, also, to grammatical construction and punctuation (*Joy v. St. Louis*, 138 U. S. 1; *Perry v. Mott Iron Works*, 207 Mass. 501, 93 N. E. 798), and the practical construction given to the contract by the parties must control (*Rubber Co. v. Goodyear*, 9 Wall. 788; *District of Columbia v. Gallaher*, 124 U. S. 505; *Lowrey v. Hawaii*, 206 U. S. 206; *Old Colony Trust Co. v. Omaha*, 230 U. S. 100).

¹² Vol. II, p. 1214.

As this Court held in *Rubber Co. v. Goodyear*:¹³

"The practical construction which the parties themselves have given to a contract by their own conduct is, in cases of doubt, always entitled to great weight." and, in words directly apposite here, continued:

"If they had understood the license *then*, as they construe it *now*, their interest would have prompted an opposite line of conduct."

As respondents "understood the license *then*", they expected to have the courts enforce the "license notice" restriction on use as against those who *bought* the patented devices from the Transformer Company which was empowered absolutely to make them, and to sell them with that notice attached. That was the tenor and the practical construction of their license agreement. That is what respondents stood on and emphasized until they came to this Court. Had that notice restriction been enforceable *under the patent law*, respondents would have accomplished their purpose; no question of knowledge or intent as to the use to which the purchaser would put the articles could ever have arisen, and the acts of the purchaser in ignoring the "use restrictions" would have constituted infringement.

But this Court had given no indication in its prior decisions that such limitations on patented articles *after their sale* would fare any better than any of the other attempted restrictions which it held beyond the patent law, when sought to be enforced against purchasers. Indeed, this Court has twice held that those decisions laid down rules applicable to all types of restrictions.¹⁴ And, in referring to the issues

¹³ 9 Wall. 788 at p. 799.

¹⁴ *Boston Store v. American Graphophone Co.*, 246 U. S. 8 at p. 25; *United States v. United Shoe Machinery Co.*, 247 U. S. 32 at p. 58.

"arising with increasing frequency as to whether a patentee by notice can prescribe "the condition of its use", on the sale of a patented article, this Court held:¹⁵

"The statutes relating to patents do not provide for any such notice and it can derive no aid from them."

Therefore, faced by decisions holding that the "license notice" method which by the agreement they directed their licensee to use to impose the restriction, was unenforceable in patent law, whatever the contractual rights of the parties might be,¹⁶ respondents "*construe it now*" as if the Transformer Company had violated its license by making the sale. But, as we have seen, that new construction accords neither with the language of the agreement nor with its practical construction by the parties. Nor does it accord with any principle of law or logic, or with any precedent we have been able to find.

How can a patentee impose on its licensee to make and sell, a condition on use *after sale* which the patent law does not recognize even if imposed by the patentee himself?

This Court has heretofore struck down every manner of restriction patentees tried to persuade it to enforce on patented articles *after their sale*.¹⁷ If such conditions are not enforceable in infringement suits, by what manner of reasoning will notice thereof to anyone make them so. If un-

¹⁵ *Motion Picture Patents Co. v. Universal Film Co.*, 243 U. S. 502 at p. 509.

¹⁶ *Motion Picture Patents Co. v. Universal Film Co. (supra)*; *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659.

¹⁷ *Adams v. Burke*, 84 U. S. 453; *Hobbie v. Jennison*, 149 U. S. 355; *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659; *Bauer v. O'Donnell*, 229 U. S. 1; *Straus v. Victor*, 243 U. S. 490; *Motion Picture Patents Co. v. Universal Film Co.*, 243 U. S. 502; *Boston Store v. American Graphophone Co.*, 246 U. S. 8; *United States v. United Shoe Machinery Co.*, 247 U. S. 32.

enforceable against purchasers when the device is sold by the patentee, on what conceivable theory do they become enforceable as a condition imposed on a right of sale by a licensee?

This Court must have overlooked the fact that respondents *under the guise of a right to subdivide* their patent right of user, are here seeking to *enlarge* the scope of that right by having this Court approve their effort to attach a condition of user intended to be effective *only after sale* of the patented article, and therefore utterly beyond the confines of the patent law, and falling directly within the prohibitions of the common law.¹⁸

In effect, therefore, in holding the Transformer Company's acts in making and selling to be infringements, this Court necessarily assumed the validity or enforceability *under the patent law*, of the condition *subsequent* imposed by the license agreement on the use of the amplifiers made and sold thereunder. The Court could not have reached that conclusion in any other way. In consequence, though the present majority opinion holds "that neither question should be answered", it takes for granted the very condition upon which were predicated the two questions ordered re-argued, assumes what is called upon to be proven, and concludes with a determination that it does not have to pass upon it.

Therefore, we come to the final question logically presented, namely, were the amplifiers made and sold to petitioner capable of use for their "licensed" purpose? It is believed that this Court could not have arrived at the conclusion that the sales to petitioner by the Transformer Company of the challenged amplifiers were *infringing* sales unless it was

¹⁸ *Dr. Miles Medical Co. v. Park & Sons*, 220 U. S. 373.

of the belief that the amplifiers sold were useful only in the "unlicensed" field of talking motion pictures, and therefore were *incapable* of use in the "licensed" field of radio broadcast, experimental and amateur reception. Only by such reasoning could the *manufacture* of the amplifiers be termed "unlicensed". A careful study of this Court's *last* opinion makes it clear that the Court was under that impression, and that *by reason thereof* the Court concluded, in addition, that the sales to petitioners were *not* sales in the *ordinary channels of trade*. The facts and the law of the case completely negative the impression and the conclusion, as will now be shown.

For the first time in this or any of the courts below, respondents, in the argument leading up to the present decision, urged upon this Court the idea that the amplifiers in controversy were specially designed so as to be useful only with talking motion picture equipment.¹⁹ The present opinion of this Court seems to be implicit with an acceptance of that thought. The facts, however, are otherwise. The Trial Court found that:²⁰

"• • • the circuit *could* function in the hands of defendant, as permitted by the terms of the notice attached to the amplifiers, namely for experimental or radio amateur use."

Again the District Court held:²¹

"and the combination of the two elements constituting the amplifier *was capable of use* by a purchaser from the license in fields to which the restrictions did not apply."

¹⁹ Respondents' Brief on Rehearing p. 5; footnote p. 14.

²⁰ Vol. III, p. 1647, fol. 4939. By stipulation the opinion of the District Court constituted the Findings of Fact and Conclusions of Law in the case (Vol. III, p. 1693).

²¹ Vol. III, p. 1649, fol. 4945.

These findings of the District Court have never been disputed throughout the litigation, and should be treated as "unassailable".²²

Moreover, it was stipulated at the trial that the licensee made and sold Types 25-A and A-41 amplifiers to petitioner.²³ Reports of those sales, introduced by respondents, showed that petitioner purchased large quantities of Type 25-A.²⁴ Attached to a letter put in evidence by respondents, in which the Transformer Company informed petitioner "That is the type of license notice which is placed upon the amplifier *and is the only way which we can sell them.*",²⁵ is a catalogue, showing Type 25-A as a stock model.²⁶

If the amplifiers in controversy had not in fact been capable of various uses such as in wireless telephony, wire telephony, radio, public audition systems and sound systems generally, as respondents' expert testified they were,²⁷ what would have been the necessity of putting on each of them, as the Transformer Company concededly did,²⁸ license notice plates purporting to *limit* its uses to those specified on the notice?

This, too, was the understanding of the Vice President and Director of Patent Developments in the Radio Corporation of America, who testified on behalf of respondents as follows:²⁹

"These things, these vacuum tubes and the circuits on which we have patents, are useful in various of these fields and applicable to many fields. And if we

²² *Adamson v. Gilliland*, 242 U. S. 350.

²³ Vol. I, p. 65, fols. 193-194.

²⁴ Plaintiffs' Exhibit 77; Vol. II, p. 1225.

²⁵ Plaintiffs' Exhibit 33; Vol. II, p. 732, fol. 2195.

²⁶ Vol. II, last folded insert page marked 733 in blue printer's type.

²⁷ Vol. I, p. 194, fol. 581.

²⁸ Vol. I, p. 390, fol. 1168; Vol. II, p. 734.

²⁹ Vol. I, pp. 516-17, fols. 1548-1549; p. 518, fol. 1554.

granted licenses not restricted to any particular field, *the same things could be used in these other fields.*"

That very admission was made by respondents' counsel, as well, and appears in their original brief to this Court (and its reprint on rehearing) at page 8:

This being so, there can be no question but that when the Transformer Company made the amplifiers in controversy, it made them capable of the *restricted* uses, so that when it sold them under its conceded power of sale, they continued to be capable of the same *restricted* uses specified on the "license notices" attached to them on sale.

Therefore, there can be no infringing sale because respondents' grievance, if any, could arise only *after sale*, and then only when and if the *purchaser* ignored the license notice by *actual use* of the amplifiers contrary to the restricted purposes thereon stated. This seemed clear to the Trial Judge who pointed out in his opinion:³⁰ "It is for use in *excluded* fields, that plaintiffs sue" (Italics by the Court). But under the view of respondents, which the present majority opinion appears to have accepted, we take it this Court would now have to answer in the affirmative, what respondents never did answer though asked by Mr. Justice STONE on the first argument:

"If the *sale* was *illegal*, then even a use by the *purchaser* under the license notice would be bad."

The thought behind that question points unerringly to the fallacy in the entire line of reasoning that led to the conclusion reached in the present majority opinion.

There is equally no basis in fact or law for the conclusion in the present majority opinion that the amplifiers "did not

³⁰ Vol. III, p. 1647, fol. 4940.

pass into the hands of a purchaser in the ordinary channels of trade".

The phrase "passed into the hands of a purchaser in the ordinary channels of trade" as it appears in the questions which were ordered reargued, is simply the language of the courts in defining transactions by which patented articles pass from one empowered to sell them, into the hands of purchasers who thereupon proceed to use them. There is no question but that the Transformer Company had the right to manufacture the amplifiers in controversy. There is no question but that it had the right to sell them. Until the decision in this case it was also thought beyond question that purchasers could properly ignore restrictive conditions purporting to be operative on patented articles *after their sale*. This Court so held in infringement suits concerned with sales by patentees,³¹ by assignees³² and by licensees, empowered as in the case at bar, to make and sell.³³

This rule so developed and applied by this Court rests on no distinction amongst these three groups of cases.³⁴ Counsel thought so and so advised petitioner.³⁵ Leading students of the law thought so,³⁶ as did other Courts.³⁷

³¹ *Adams v. Burke*, 84 U. S. (17 Wall.) 453; *Hobbie v. Jennison*, 149 U. S. 355; *Keeler v. Standard Folding Bed Co.*, 157 U. S. 659.

³² *Bauer v. O'Donnell*, 229 U. S. 1; *Straus v. Victor Talking Machine Co.*, 243 U. S. 490; *Boston Store v. American Graphophone Co.*, 246 U. S. 8.

³³ *Motion Picture Patents Co. v. Universal Film Co.*, 243 U. S. 502; *Jackson v. Vaughan*, 73 Fed. 837, Circuit Court N. D. Cal.; *Hogue & Berrian Package Co. v. Bryan Wise*, 35 U. S. Pat. Q'y 72; Dist. Ct. Michigan (unoff. reported, 1933).

³⁴ *United States v. United Shoe Machinery Co.*, 247 U. S. 32 at p. 58; *Boston Store v. American Graphophone Co.*, 246 U. S. 8 at pp. 25-26.

³⁵ Vol. I, p. 341, fols. 1021-1022; pp. 367-370, fols. 1108-1109.

³⁶ 5 *Williston on Contracts*, pp. 4630-4631; Prof. Chafee in 41 Harv. Law Rev. 945 at 1002; 1 *Walker on Patents* (1929) at p. 425; 24 *Ruling Case Law*; *Sales*, pp. 372-373.

³⁷ See *Chicago Daily News v. Kohler*, 196 N. E. (Ill.) 445, 450.

Indeed, so intense and so firmly rooted is this conviction, upset as it now seems to be unless this Court will reverse its ruling, that a leading article in the current Columbia Law Review³⁸ and extensive notes in the current New York University Law Quarterly and North Carolina Law Reviews³⁹ urge the view that the decision in the present case, and the reasoning leading up to it, are erroneous on principle and precedent.

Surely such a situation cannot co-exist with an atmosphere of suspicion and "connivance" so sedulously worked up by respondents and which seems to pervade the opinion in this case, though unexpressed beyond the conclusion that petitioner was not "a purchaser in the ordinary channels of trade". That phrase is the language used by this Court when it stated that *any article sold becomes*:⁴⁰

"an article of commerce and the rules concerning the freedom of trade must be held to apply to it."

And, writing of the status of a patented article after its sale, another Court held:⁴¹

"Having parted with his ownership therein, it enters the channels of trade as an article of commerce, and is thereafter beyond his (the patentee's) control."
(Matter in parenthesis ours.)

Perhaps the origin of the expression, in so far as transactions of this character are involved, is found in a Circuit

³⁸ 38 Columbia Law Review 1145 at pp. 1154-1158 and p. 1178 (Nov. 1938).

³⁹ 16 New York University Law Quarterly Review, pp. 160-162 (Nov. 1938); 17 North Carolina Law Review, pp. 74-78 (Dec. 1938).

⁴⁰ *Dr. Miles Medical Co. v. Park & Sons*, 220 U. S. 373 at p. 408.

⁴¹ *Coca-Cola Co. v. The State*, 225 S. W. 791, 793.

Court opinion from which, because of the erroneous emphasis placed on the phrase in the present majority opinion, we quote at length:⁴²

• • • I think all property stands upon an equal basis, whether that property consists of gold dollars in your pocket, real estate, or the ownership of a patent. There is no peculiar sanctity hovering over or attaching to the ownership of a patent. It is simply a property right, to be protected as such. Starting from that as a basis, while every property owner may determine for himself to what he will devote his property, yet *the moment he puts that property into what I perhaps may, for lack of a better expression, define as the channels of commerce, that moment he subjects that property to the laws which control commercial transactions*; just as in the warehouse cases (*Munn v. State of Illinois*, 94 U. S. 113), in which that court held that when an individual built a warehouse, and put his property into that kind of business, he subjected the property thus placed to the laws which controlled the transactions of commerce. • • • No man holding property was bound to build a warehouse, or bound to put his property into that particular channel, but the moment he did so, he put it • • • into the channels of commerce,—as multitudes are doing,—into the railroad business, into the express business, and into other channels of commerce. Whenever the property is put into those channels it is put within the power of the public, speaking through its legislature, or the power of the court enunciating general rules operative upon such transactions, to modify leases, modify licenses, control duties • • •"

⁴² *State of Missouri v. Bell Telephone Co.*, 23 Fed. 539 at p. 540; appeal dismissed 127 U. S. 780.

Summary and Conclusion~~and to the First Point.~~

It is therefore submitted that the two questions on which the reargument was ordered *and to which it was confined*, are squarely raised in the present case.

The Transformer Company was possessed of the unlimited and unrestricted right to *make*. The restriction on *use* sought to be effected on the patented amplifiers throughout their lives was not a restriction on the licensed *manufacturer*. On the contrary, it was a restriction sought to be imposed only on the *purchaser*, and by its very nature could be operative only against the *purchaser*.

Likewise, this restriction was not on the licensed manufacturer's right of *sale*, as is made evident by the license agreement itself, which imposed upon the licensee no obligation other than attaching the notice of restriction to the amplifiers when sold; it is made further evident by the practical construction given to the license agreement by the parties themselves, as is exemplified by correspondence and the operations of the Transformer Company over a long period of time without question or protest.

Finally, the conclusion of the Court that the questions were not presented by the facts of this case could have been arrived at only because of the belief that the amplifiers made and sold to petitioner by the Transformer Company could be used and were useful *only* in the talking motion picture field. Such is entirely contrary to the fact, and to the findings of fact of the District Court, which findings, fully supported by the evidence, had never heretofore been questioned.

It is submitted, therefore, that a rehearing should be granted and the two questions passed upon.

POINT II.

The present majority opinion of this Court leaves undisturbed the prior decision of the Court in this case.

Although the present majority opinion disposed of this case with the assertion that the two questions on which the rehearing was ordered are not presented by the facts, it leaves undisturbed the prior majority opinion of this Court which found that the first question, modifiedly stated, was presented by the case, and in effect answered it in the affirmative. In doing so, the first decision was at utter variance with the prior decisions of this Court, on the same issues of law involved, for nearly a century, and failed to expressly overrule them or in any wise to differentiate from them.

In consequence, while it was no doubt the purpose of this Court, by its current disposition of this case, to leave the questions presented unanswered, the prior and still outstanding decision in the case in effect answers the first and perhaps the most important question, and, like the present decision, is capable of being read, and has been read as reinstating the overruled doctrine of *Henry v. Dick*.⁴⁸

⁴⁸ 17 North Carolina Law Review 74, 78; 38 Columbia Law Review 1145, 1154-1158, 1178; 16 N. Y. U. Law Quarterly Review 160-162.

POINT III.

The two questions, being properly before this Court in this case, should be considered on reargument and answered in the negative because of the merits and the applicable law.

It is deemed to be unnecessary extensively to discuss the subject of the merits in this petition for a rehearing.

However, it is deemed important to call the attention of the Court to two vital elements it has apparently overlooked. They are (1) that the case at bar is in every essential the same as the *Motion Picture Patents* case;⁴⁴ and (2) that the principles and supporting cases referred to in the present majority opinion, concerning the validity of restrictive license conditions, are wholly inapplicable here. They are inapplicable because they relate solely to the relationship between licensor and licensee in situations where the separate and different questions as to limitations on rights of *purchasers* of patented articles, intended to be effective *after sale*, were neither involved nor considered.

In the *Motion Picture Patents* case, as here, the patent owner granted a license to *make and sell* under the patent. There, as here, the license to sell was restricted as to use, and it was sought to make the restriction effective by a notice attached to the patented device sold. There, too, the purchaser was sued *for infringement of the patent* because of failure to honor the restriction. There, as here, the patent owner contended that the *sale*, being outside of the restricted license was an *infringing sale*, the patented device an infringing device wherever found, and the use thereof

⁴⁴ 243 U. S. 502.

in the hands of a *purchaser* an infringing use, and the *purchaser* an *infringer*.

The only distinction between the *Motion Picture Patents* case and the case at bar is that there the restriction on use was directed to materials to be used with the patented device, whereas here the restriction on use is directed to the *field of use* of the patented device. In the *Motion Picture Patents* case this Court held the restriction *unenforceable under the patent law*. In the case at bar, however, the effect of the Court's opinion is to hold the restriction *enforceable under the patent law*.

What is there in the present case to justify this departure from the unquestioned rule of decision in the *Motion Picture Patents* case? It cannot be in the *type* of restriction sought to be imposed on purchasers of patented articles to be effective after sale. The present opinion does not put it on any such ground nor does it distinguish the restriction here involved in principle or in law. Indeed, this Court has interpreted the *Motion Picture Patents* decision to stand for the doctrine that a patentee "could not by *qualifying restrictions as to use*", keep his patented machine subject to the monopoly of the patent, once it has been sold.⁴⁵

We cannot believe that this Court intends to stand committed to a doctrine that restrictive conditions unenforceable under the patent law against purchasers from a *patent owner* may nevertheless be *enforceable* under the patent law against purchasers from *licensees* of a patent owner. Yet that is precisely the effect of the present majority opinion in the case, anomalous though it seems to be.

Likewise, examining the problem from the angle of "knowledge", of which the Court in its current opinion

⁴⁵ *Boston Store v. American Graphophone Co.*, 246 U. S. 8 at p. 25.

speaks, it is again impossible to perceive what there is here to distinguish this case from all the other decisions in this Court where *knowledge* of a purchaser's intention to disregard restrictive use conditions attached to the patented article sold, was invariably and expressly held irrelevant.⁴⁶ Those cases were not limited to sales by patentees or assignees. The *Motion Picture Patents* case involved a sale by a licensee whose license to make and sell is more exacting than the one in the case at bar. *Knowledge* was unquestioned in that suit. The *purchaser* of the device knew of the restrictions; *the party supplying the film* knew of them; and the Trial Court, in foreclosing extended questioning as to the knowledge of the other parties, held:⁴⁷

“ * * * I apprehend that the question here is whether the Prague Amusement Co. could not do exactly what it is accused of having done, no matter how many conversations it had with the Patent Co., or any of its affiliated concerns. * * * The question is, was it lawful? That is the whole point.”

The Court, having swept aside the “infringing sale” contention in that case, which parallels ours at every point except as to the particular *type* of restriction involved, there would seem to be no reason in principle or on authority why that contention should have prevailed here.

If a condition is unenforceable under the patent law as against purchasers of patented articles, the medium employed by the patentee to carry that condition along until it reaches the purchaser does not sanctify the condition so as to make the sale “an infringing sale” merely because the manufacturing licensee *knew* in making the sale that the purchaser would disregard that condition in using the

⁴⁶ *Hobbie v. Jennison*, 149 U. S. 355; *Bauer v. O'Donnell*, 229 U. S. 1; *Straus v. Victor*, 243 U. S. 490.

⁴⁷ *Motion Picture Patents Co. v. Universal Film Co.*, 243 U. S. 502; at pp. 54-55 of the printed Record of that case in this Court.

article. *A fortiori*, if, as this Court has held without exception, *knowledge* by the buyer and *intention* to disregard the restriction are of no legal significance because the *patent law* will not enforce it on patented articles *after their sale*, surely *knowledge* by the manufacturing licensee of the purchaser's *knowledge* and *intent* can obviously have no greater significance.

There can be no question but what *any* restriction between a licensor and a licensee is lawful and enforceable, provided, of course, it is not violative of some special statute or against public policy. But this is not so because of the *patent law*; it is so because of common law. A breach of such a restriction is actionable, and the licensor may choose from his many remedies, such as specific performance, damages, or cancellation. But by no interpretation of the *patent statute* could that breach by a licensee be actionable in an infringement suit by the licensor *against a purchaser* from a licensee possessed of the right to make and sell.

The licensee agreement may well have provided an obligation on the part of the Transformer Company to obtain an *agreement in writing* from petitioner that it would not use the amplifiers in the talking motion picture field. A breach of such an agreement by petitioner might have been actionable *on the contract* by the Transformer Company, either alone, or for the benefit of the licensor. But by no interpretation of the *patent statute* could petitioner have been sued for *infringement* of the patents under which the amplifiers were made and sold.⁴⁸

There can also be no question but that the present majority opinion of the Court was correct in holding that restrictions imposed upon a licensee by a patent owner have

⁴⁸ *Motion Picture Patents Co. v. Universal Film Co.*, 243 U. S. 502 at p. 509.

been held enforceable under the patent law. But the outstanding distinction between those cases and the case at bar, which this Court has overlooked, is that those cases and the principles of law there applied were concerned solely with restrictions on the licensee's right of user, or with situations where the restrictions imposed on the licensee who had a power to make and sell, were by their very terms intended to be effective only *prior to sale*. Here, the restriction is sought to be imposed on a purchaser's use of the amplifiers *after sale*, and is not enforceable *under the patent law*. Every decision of this Court on the subject for nearly a century has so held, with the single exception of the overruled *Dick* case. Indeed, this Court considered the rule enunciated by those decisions so firmly established that, in the *Boston Store* case it expressly rejected any further attempts "judicially to correct doctrines which by reiterated decisions have become conclusively fixed".⁴⁹

This was the very point on which the oft-cited *Mitchell v. Hawley* decision turned,⁵⁰ and yet no case seems to have been the subject of more confusion as to precisely what was there involved. In that case, the licensee, Bayley, was granted an exclusive license *to make and use* for a specified territory and for the remainder of the original patent term. But the grant conveyed *no power of sale whatsoever*. *That was retained by the patentee*. The licensee had therefore violated his right of user by attempting to exercise a right which the patentee had reserved, viz., the right to vend. The Circuit Court held:⁵¹

"An examination of this contract shows clearly that it was carefully drawn by the parties to guard against such a result. Nothing can be more evident

⁴⁹ *Boston Store of Chicago v. American Graphophone Co.*, 246 U. S. 8 at p. 26.

⁵⁰ 16 Wall. 544.

⁵¹ *Mitchell v. Hawley*, 1 Holmes 42 at p. 44; aff'd 16 Wall. 544.

than the purpose expressed in this instrument to put it out of the *power* of Bayley to give any title to the machines. The very act of sale was a violation of the contract and an act of infringement
 (Italics by the Court.)

It is difficult to understand how the grant of the right to *make and use* alone (*Mitchell v. Hawley*) can be deemed equivalent in the patent law to the grant of the right to *make and sell* alone (the case at bar). Yet the present majority opinion apparently cites the *Mitchell* decision as conclusive against petitioner.

The fact that the *power of sale* granted to the Transformer Company obliged it to condition the use of the amplifiers it made and thereupon sold under that power, so as to limit the purposes to which the *purchaser* would put the amplifiers, did not make it any the less an authority to sell, within the decisions of this Court to which we have referred. Restrictive conditions never having been held good by this Court as against patented articles *after their sale*, such conditions do not become enforceable under the Patent Law as limitations upon a power of sale. The patentee deliberately chose this method so as to find a wider market but the patentee is not without the power to withdraw it forthwith or to cancel its agreement with the licensee or to sue the licensee at law on the covenants. But this Court has at no time other than in the present case ever permitted the patentee to use the special remedies of the patent law to spread its monopoly beyond its proper confines as delimited by this Court. This phase, too, was given consideration by the Circuit Court in *Mitchell v. Hawley* when it held:⁵²

"He (the licensee, Bayley) never acquired the right to sell a single machine . . . Had he . . . possessed

⁵² 1 Holmes 42 at p. 44.

the *power to sell* the patented machines, the purchaser would have acquired a title which would have been outside of the monopoly, and would have acquired the absolute right to use the machines during the extended term; and this notwithstanding any covenants Bayley might have made not to convey such a title. Under such circumstances, the patentee must have sought his remedy against Bayley *on his covenants.*" (Matter in parenthesis ours.)

If the language of this Court in the *Mitchell* case is read, as it should be, in the light of the facts more detailed in their presentation in the Circuit Court opinion, there could be no uncertainty as to just what was there involved and precisely what the Court there decided. Yet *Mitchell v. Hawley* was relied on by both the majority and minority opinions in *Keeler v. Standard Folding Bed Company*,⁵³ in ~~Henry v.~~ *Dick*,⁵⁴ and, finally, in the case at bar.

The minority in the *Dick* case, in which the present Chief Justice HUGHES concurred, also held that the *Mitchell* decision was no authority for upholding restrictions on patented articles *after their sale*, because, one of the rights which the patent law grants to a patentee, viz.,—*the right to sell*, had been *wholly retained* and not granted to the licensee in that case.⁵⁵ The same distinction is recognized in the present dissenting opinion in the case at bar.⁵⁶ It was recognized, as well, in *Waterman v. McKenie*.⁵⁷ But it seems to have been entirely overlooked and not even mentioned in the present majority opinion here.

⁵³ 157 U. S. 659.

⁵⁴ 224 U. S. 1.

⁵⁵ *Henry v. Dick*, 224 U. S. 1 at p. 63.

⁵⁶ See continuation of Footnote 1 of present dissenting opinion on page 2 thereof.

⁵⁷ 138 U. S. 252 at p. 256.

Had the minority opinion in the *Keeler* case, and the majority opinions in the *Dick* case and in the case at bar, examined and given due consideration to the closer analysis of the facts in *Mitchell v. Hawley* as they appear in the Circuit Court opinion in that case, sufficient ground would have appeared to hold the sales in the case at bar to have been lawful sales and free from any claim of infringement.

Hence, when the present opinion cites *Mitchell v. Hawley* for the proposition that "a restrictive license is legal", and the *Rubber Company* and *Gamewell* cases for the statement that "the practice of granting licenses for a restricted use is an old one" it may be agreed that that is so. But those decisions relate solely to *uses* by the licensee in the *practice* of the patented invention, and are concerned only with those situations between patentee and licensee as may arise *up to the point of sale* of the article made under the patent, but *never beyond it*. That, too, is all that Robinson on Patents,⁵⁸ sec. 916 stands for, viz.: "Any use beyond the valid terms of a license is, of course, an infringement", as cited in the present majority opinion.

This same all-pervading fallacy in logic and definition appears when the present majority opinion cites *United States v. General Electric Company*⁵⁹ as further authority for its conclusion. That case was concerned only with *agencies to sell*, and with the validity of agreements between the patentee and its manufacturing licensee as to the prices at which the licensee shall sell the electric light bulbs it made. In other words, as this Court there held, if a patentee grants a license to make and sell, he may require the

⁵⁸ The decisions of this Court subsequent to *Adams v. Burke* (84 U. S. 453), and the doctrines therein developed, that patented articles after their sale are freed from the monopoly of the patent, are of a period subsequent to the Robinson text, last published in 1890.

⁵⁹ 272 U. S. 476

licensee to "limit the selling by limiting the method of sale and the price".⁶⁰ But throughout the *General Electric* opinion unmistakable emphasis is laid by the Court upon the distinction we have made, namely, between limitations on licensees that spend their force *at the point of sale*, and those that are designed to become effective solely *after sale*.

That goes to the heart of the error in the case at bar. That is what this Court appears to have overlooked. Hence, when the present majority opinion quotes from the *General Electric* case that "the patentee may grant a licensee 'upon any condition the performance of which is reasonably within the reward which the patentee by grant of the patent is entitled to secure,'" the statement of principle need not be questioned, but it must be read and understood as there intended, and controlled by the facts there presented. The very next sentence after that quotation makes that clear. It reads:⁶¹

" * * * It is well settled, as already said, that where a patentee makes the patented article and sells it, *he can exercise no future control over what the purchaser may wish to do with the article after his purchase. It has passed beyond the scope of the patentee's rights.*"

In such language this Court summarized what, until the decision in this case, had been considered correct doctrine.

In all cases where this Court struck down restrictions sought to be imposed on patented articles, which restrictions, by their very nature, could not become operative until *after sale*, three elements were present, viz.: (1) a power of sale, vested either in the patentee, assignee or licensee; (2) an exercise of that *right to vend*; and (3) the consequent pass-

⁶⁰ 272 U. S. 476 at p. 490.

⁶¹ 272 U. S. 476 at p. 489.

ing of title to the patented article sold. Any sales claimed to have been made in excess of that power, were held by this Court to be matters of special contract, and enforceable, if at all, in contractual actions on the covenants, but *not* in infringement suits.

When, in reaching this conclusion, the *Motion Picture Patents* case⁶² cited *Keeler v. Standard Folding Bed Co.*,⁶³ this Court demonstrated that there was no distinction in the Court's mind between patentees, territorial assignees or limited licensees. It thereby also demonstrated that the *Motion Picture Patents* decision rested, not on the nature or type of restriction employed, but rather on fundamental principle of far-reaching importance and vital public interest. That principle, in the language of this Court,⁶⁴ is that the monopoly of the patent cannot:

"be extended beyond the scope of that law or, in other words, applied to articles after they have gone beyond its reach."

This broad line of demarcation between cases typified by the *Keeler*, *Motion Picture Patents*, *Boston Store* decisions, and the case at bar, on the one hand, and the *General Electric Company* decision on the other, has been firmly drawn. This Court itself drew that line. Patentees, too, drew that line for they urged the distinction first, in *Bement v. National Harrow Co.*,⁶⁵ and then in the *General Electric* case. Though these two cases were brought under the anti-trust laws, the patentees successfully argued that they were not violators of those laws because the transactions attacked were *not sales* of patented articles but merely

⁶² 243 U. S. 502 at p. 509.

⁶³ 157 U. S. 659, 666.

⁶⁴ *Boston Store v. American Graphophone Co.*, 246 U. S. 8, at p. 26.

⁶⁵ 186 U. S. 70, 93.

license or agency agreements imposing no conditions intended to be effective against purchasers of patented articles *after sale*. The present decision, however, erases the line, as if to say the line never existed. And this holding follows closely on the heels of the decision of this Court, per Mr. Justice BRANDEIS,⁶⁶ in which the earlier enunciated doctrine⁶⁷ was reiterated, viz.: that a restriction there imposed on one licensed to sell was *unenforceable* against the licensee under the patent law. To reach that conclusion, this Court reasoned in the *Carbice* case:⁶⁸

“The attempt to limit the licensee to the use of unpatented materials purchased from the licensor is comparable to the attempt of a patentee to fix the price at which the patented article may be resold (citing *Bauer v. O'Donnell*, *Straus v. Victor* and *Boston Store v. American*, with a cf. to *Bobbs-Merrill v. Straus*, 210 U. S. 339). In both classes of cases, courts deny relief against those who disregard the limitations sought to be imposed by the patentee beyond the legitimate scope of its monopoly.” (Matter in parenthesis ours.)

That view and the opinion in this case are irreconcilable. If the reasoning in the *Carbice* case is sound, and there is every basis in principle and judicial precedent to substantiate it, the decision in the present case constitutes a reversion to *Henry v. Dick*, and a repudiation, though unexpressed, of the doctrine so painstakingly evolved by this Court in the course of almost a century, whereby the utilization of patented articles after their sale was kept unfettered from the monopoly of the patent law.

⁶⁶ *Leitch Manufacturing Co. v. Barber Co.*, 302 U. S. 458.

⁶⁷ *Carbice Corp. v. American Patents Development Corp.*, 283 U. S. 27.

⁶⁸ 283 U. S. 27 at p. 32.

Conclusion.

Petitioner therefore earnestly requests this Court to give renewed consideration to this cause and to grant petitioner a rehearing therein.

Respectfully submitted,

SAMUEL E. DARBY, JR.,
EPHRAIM BERLINER,
Counsel for Petitioner.

JOSEPH J. ZEIGER,
Of Counsel.

We hereby certify that the foregoing petition for rehearing is, in our opinion, well founded and that it is presented in good faith.

SAMUEL E. DARBY, JR.,
EPHRAIM BERLINER.

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